

# MEIJI INSTITUTE FOR GLOBAL AFFAIRS

## *MIGA Column “Global Diagnosis”*

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### Short Curriculum Vitae: Ryozo Hayashi

Graduated from the Faculty of Law, Kyoto University, then in 1970 joined the Ministry of Trade and Industry where he successively served as the Director of the Consumer Goods Industries Bureau, Director of the Minister’s Secretariat, and Director of the Economic and Industrial Policy Bureau. Acquired Master’s degree of Harvard Law School (L.L.M) in 1976. Served as a Fellow at the Kennedy School, Harvard University, Fellow at University of California, San Diego, Consulting Fellow at Research Institute for Economy, Trade and Industry (RIETI), Professor at the Graduate School of Public Policy, The University of Tokyo (currently Visiting Professor), Director and Special Advisor (present post) at Canon Institute for Global Studies (CIGS), and Independent External Auditor at Itochu Corporation, before taking up his current post in 2011. Other current managerial positions are; outside director at Citibank, Kiiyo Bank Management Advisory Committee, Advisor of Eurasia Group.

### **What will New Trump Administration Bring?**

It has already been nearly three months since the Trump administration took office. Through the past three months, what stands out the most is the fact that Trump is an extremely unique president. Of course, many US presidents start out by disapproving the past and start making changes. Carter, Reagan, Bush, and Obama definitely did. Many republican presidents also tend to be fierce partisans and put “America First.” However, there has never been a president who has been so hostile to Democrats, ignores common-sense in international diplomacy, and continues to be brutally honest to the point that he sounds unintelligent. He also ignores facts and demands his way,

and believes that the ends always justify the measures. While the US president has a lot of power, there is no doubt that these qualities of Trump will have a significant impact.

The US economic policy, which is the foundation of this administration, aims towards making the US strong again by making drastic changes to its policies. The regulatory reform by the Reagan administration and the strong economy built on the Internet during the Clinton administration had been overshadowed by Bush's involvement in the Middle East and Obama's social security and environmental policies. There is much support for the policy itself to bring back the regulatory reform and a strong economy. However, in reality, this support does not clearly identify what types of policy changes will be developed through this new administration. First of all, there are many layers of "checks and balances" that are written in the US Constitution that limit presidential power. These limits largely restrict the president from exercising his individuality in the areas of fiscal and financial, economic and social policies as a result. Namely, Congress unites beyond party lines to challenge the president, and the Supreme Court protects the basic rights of the states from the federal government by adhering to the constitutionality. Even within the executive branch, independent agencies such as the Fair Trade Commission and the Fed severely restrict the power of the president. One of the US unique characteristics is that the main job of the executive government is to execute the laws that were enacted by the legislature, which often distrust executive branch. It means, the US government is bound by detailed regulations, and it is not designed like the parliamentary cabinet where the cabinet proposes policies and executes them. Therefore, it is significant for the president to have the skills to get the government and legislature on his side in order to materialize his policies. President Trump does not necessarily have an overwhelming support from the American people; US political party lacks party discipline, and it is not easy to move some members of Congress who tend to vote independently regardless of party. This would be easier for someone who has an experience in politics, and is fully aware of the importance of obtaining consensus. However, it is a challenge for those who come to Washington after being accustomed to and successful at operating a business with total authority to direct employees. What is important in an administration is the ability to create a team who can support the president. Luckily, the current economy is undergoing recovery

in its favor, and efforts to downsize government and restrain new regulations have historically been successful in revitalizing economy as well. Therefore even if there are individual successes and failures, it will probably all work out at the end.

As we see, there are numerous limitations to presidential power, however, the aspect of foreign and military policies are the main exceptions to this. Although there is some dispute over the authority of war power between the president and Congress, this is an area where the president essentially has the exclusive prerogative. Trade agreement authority is another area that is similar to war power, where it gives the president authority to negotiate trade agreements and bring them to Congress for a collective vote. The international community has relied heavily on the global public goods provided by the US through these two presidential authorities, so the new president's policies regarding these factors will definitely give a great impact onto the international community.

First of all, foreign and military policies are where the president's opinion and personality are reflected the most. Since 1970, the role of the US keeps getting redefined, and the US has repeatedly demanded its allies to provide their support that matches their economic strength. Although it fluctuates depending on the state of the economy, the president has been getting growing support from the American people in this aspect. In addition, the rise of China and the return of Russian military power have pushed up the cost of global security for the US at least for the short term. The US does not have a choice but to ask for greater burden sharing by its allies. The former President Obama was not highly regarded for his performance in national security area. There are a great amount of criticisms regarding the current relationship with Russia and China, as well as the problems with North Korea and the Middle East including Syria. In that sense, it is natural to expect drastic changes to the foreign policies. Trump's unpredictable behaviors in one way can be intimidating, at the same time it can be a powerful trait and a good negotiation leverage. There are many people who consider this as an effective weapon for foreign negotiations. However, intellectual articulation is vital in order to establish a strategical framework for this to be effective. On the other hand, Mr. Bannon prefers to give all powers to the president and to deal with foreign governments with brute force by any means necessary to put the national

interest first. This approach as well as his close ties with Russia is big risk factors. The future make-up and the power balance of his military and foreign policy teams will most likely determine the success or failure of his foreign policy. When thinking about the structure of the US government and the large intellectual asset the US has built, it can be expected that this administration too will start to handle things more maturely with time.

International economic policy is the biggest challenge. Especially in the areas of trade and currency, independent agencies, the administration, and Congress cross their boundaries in terms of their power. The administration has considerable leeway when it comes to posing trade restrictions even though the WTO has instituted some limits. This makes it easy for the president to impose his personal beliefs. From the perspective of an entrepreneur, President Trump has a strong bias that free trade and investment robbed the US of the economic benefits. When this is echoed by the opinion of the general public, this could quickly lead to protectionism.

He has strong views on trade deficit and the manufacturing industries, and he does not trust multilateral free trade agreements. These beliefs are deeply rooted and troublesome especially because they resonate with the popular sentiment around the world. Trade deficit has been one of the top issues related to international economic policy since 1970. Trump's policy would have worked perfectly during the period when companies had a single nationality, under a fixed exchange rate system, and with the strict control of foreign exchange. Since then, we saw a transition of the exchange rate system to a floating rate system, a rapid increase in capital transactions such as with petrodollars, an emergence of a free foreign currency exchange market, and change of nationality of companies becoming common. All the while, it took nearly thirty years for the policy makers to clearly understand the nature of trade deficit. In the meantime, back in the 1980s, US trade deficit rapidly grew due to the quick recovery of the US economy, and strategic manufacturing such as in the semiconductor industry put Japan to the top. US "fair trade" oriented trade policy, unilateralism seen in Super 301 and semiconductor trade agreements brought chaos to the world. Then, the WTO was created as an authority to spell out the specifics of "fair trade" and establish the rules and procedures to ensure compliance. Finally, international trade was governed by "the

Rule of Law.”

The US open trade policy brought prosperity with market expansion and competition through globalization. It would be a denial of this success itself to blame multilateral trading system for the deterioration of US manufacturing and the growing trade deficit, and to impose restrictions. It took over twenty years, but it has become clear that, today, trade is not a zero-sum game where wealth is moved between two nations. It is simply a result of business transactions that two parties agreed to do for own benefit. Trade deficit resulting from these transactions mean that there are more investments and consumption than saving in the country. The decline of manufacturing industries is a result of the transition from manufacturing industries to the ICT industry that produces more value and attracts more resources. This is indicative of flourishing economic activities that can lead to further economic growth and better technology. The US economy is the biggest beneficiary of all of this.

However, people tend to see sign of losses more than widely spread benefit. It is difficult to change this natural tendency. For an economic policy to be successful in the future, President Trump has to set aside personal inclination and understand how a national economy works. He has to realize that there is a big difference between the perspectives of a successful company and a successful national economy. The WTO, summit meetings, the academia within the US, and the ICT industry are expected to play a major role in this process.

Japan and many other European countries are somewhat used to the changes and the normalization processes resulting from a change in the US president. In that sense, the US-China relation will be hit the hardest from the change. First of all, the new administration will clash with China on economic issues. Nationalism flared up even in Japan during the time of the so-called “US-Japan trade war.” However, in the case of Japan, it was still a part of the West, protected by US nuclear umbrella. Japan needed to be grateful to the US for their provision of international public goods. The situation is different for China. On top of that, China is at a turning point of their economic growth, and the Communist Party leadership is also being challenged. In the midst of this, China is trying to confront the US as a nation with new power. Considering China’s foreign diplomacy capabilities, Xi Jinping’s character and

leadership style, and the personality of the new US president, the two countries could clash on security issues, or one may impose a trade restriction, and the relationship between the two countries could become strained very quickly. The challenge of US-China relations will be the central focus over the next four years.

Lastly, let's consider the US-Japan relations. We had to hold our breath during the summit meeting, but the result has shown that it turned out to be a good start, and the trust between the two leaders will be a big asset. In the future, as there will be various political appointees when negotiating specific issues, it will be inevitable to have one or two people who will try to use the opportunity to meet their own agenda. When this happens, the trust between the US president and the Japanese prime minister will be a deterrent and a safeguard against them.

Meanwhile, people seem relieved that the issues on trade and exchange rate issues did not come up. However, it should be noted that any serious problems will always creep up as an issue with the US, in some form or another.

Fundamental US external economic policy problems discussed above are not problems specific to Japan. That being said, the currency exchange policy and the TPP aftermath are the issues Japan will have to deal with.

The US is currently pointing to China, Japan, and Germany on the issues with currency exchange policy. Ironically, China, the biggest strategic target for the US, is taking measures to strengthen the yuan in the short term, so China is not necessarily the "qualified" country for the US to blame. The Euro is the problem in terms of Germany. If the US attacks the Euro as a way to deal with Germany, it will only expand the battle line, and the US might end up getting nothing at the end. On the other hand, the Japanese yen has been getting much weaker as a result of an unprecedented easing of the monetary policy. There is a high likelihood that the yen is going to continue to get weaker with the future prospect of the interest rate differential between the US and Japan. There is a complication with the US policy as well; on one side, it is seeking a stronger dollar as a symbol of strong America, but it also wants a weaker dollar considering the impact on the manufacturing industries. To solve this complexity and to maintain a consistent policy, it will be critical to have more multilateral meetings like

G7, as well as talks between the US and Japan involving secretaries and ministers.

Another sticky problem is what to do after the withdrawal from the TPP. The US wants a bilateral agreement between the US and Japan in replacement of the TPP. Essentially, a more open system will make Japan stronger. It is an undeniable fact that Japan imposes more regulations toward new services and continues to protect its farmers reclusively, including Japan-US bilateral trade talk. In that sense, it is not all bad to expand opportunities for Japan to participate in international trade talks, including bilateral talk, and to reconsider Japan's over-regulations and protectionism. On the other hand, it took a vast amount of political capital to work up the TPP domestically. It is not realistic to forget all the political effort and start anew again. Internationally, the success basically depends on whether or not the US can develop a framework at a higher level to outmaneuver China. The US might have to take time and settle on its priorities and readdress the strategy while keeping an eye on various changes.

When we look at the individual pieces, we can see that the US established principle and systems are extremely strong, and it is not very likely that the US would surprise us by the sudden and complete change to the extreme despite what the president might say or do. One aspect that will be impacted the most by the new administration is the soft power. Soft power is what made the US the world leader, and uphold the universal value since the Kennedy administration. There are countless people who have been touched and inspired by the American spirit all over the world. President Trump will continue to send strong messages that will damage the American spirit for the next four years. It is impossible to know how much efforts it will need for the US to become a moral leader again in delivering the universal values.